



CITY OF LAKE ANNETTE, MISSOURI

YEAR ENDED DECEMBER 31, 1999

**From The Office Of State Auditor  
Claire McCaskill**

Report No. 2000-63  
July 31, 2000  
[www.auditor.state.mo.us](http://www.auditor.state.mo.us)

# AUDIT REPORT



Office Of The  
State Auditor Of Missouri  
Claire McCaskill

July 2000

[www.auditor.state.mo.us](http://www.auditor.state.mo.us)

**Some problems were discovered as a result of an audit conducted by our office in response to the request of petitioners from the City of Lake Annette, Missouri.**

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In November 1990, the city contracted with an engineering firm to conduct a feasibility study and perform other services related to the development of a municipal sewer system. Subsequently, in December 1995, the city issued \$85,000 in general obligation bonds to assist in financing the system. Since that time, the city has levied a property tax to pay the bond principal and interest. Although the city has spent almost \$59,000 of the bond proceeds, as of February 2000, the city has made little tangible progress toward the development of a sewer system.

The city needs to perform a comprehensive review of this project, the alternative systems presented by the engineers, and the estimated costs of these systems; and determine if it is feasible for the city to proceed with the project. If determined to be feasible, a firm decision should be made regarding the direction of this project and city officials should commit the necessary efforts and resources to ensure its successful completion. The city should obtain the necessary technical and administrative assistance from an engineer and/or consultant to assist it in this effort.

The city does not have a formal bidding policy and instances were noted where bids were not solicited or bid documentation was not maintained. Expenditures were made to parties with whom certain city officials had business relationships. Compensation was paid to a former alderman which was not authorized by ordinance. Adequate documentation was not maintained to support various expenditures made from city funds. The city did not enter into written agreements with contractors or individuals in some instances.

The duties of City Clerk and City Treasurer have not always been segregated as required. Bank reconciliations are not properly performed or documented. City financial activity has not been properly tracked by fund since October 1999, and the city has not ensured some restricted revenues have been used for the purposes required.

The board minutes do not document whether a former alderman voted on the appointment of his wife as City Treasurer. Timesheets were not always sufficiently detailed or retained to support payroll, and all wages were not properly reported nor applicable payroll deductions withheld. Quarterly contribution and wage reports were not always accurate and submitted timely.

(over)

YELLOW SHEET

The board minutes did not adequately document matters discussed and actions taken by the board and the minutes were not always signed by the City Clerk and Mayor. In addition, the city ordinances are not complete and up-to-date.

In recent years the city has not adopted annual budgets and has not published semi-annual financial statements as required by state law. In addition, annual financial reports have not been submitted to the State Auditor's office as required.

CITY OF LAKE ANNETTE, MISSOURI

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## STATE AUDITOR'S REPORT



**CLAIRE C. McCASKILL**  
**Missouri State Auditor**

To the Honorable Mayor  
and  
Board of Aldermen  
City of Lake Annette  
Lake Annette, Missouri 64746

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Lake Annette, Missouri. Our audit of the city included, but was not limited to, the year ended December 31, 1999. The objectives of this audit were to:

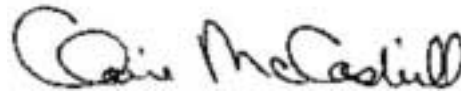
1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, ordinances, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which we believe could be improved.

Our audit was made in accordance with generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. We also reviewed board minutes, city policies and ordinances, and various city financial records.

Our audit was limited to the specific matters described above and was based on the selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention which would have been included in this report.

The accompanying History and Organization is presented for informational purposes. This information was obtained from the city and was not subjected to the auditing procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings and recommendations arising from our audit of the city of Lake Annette, Missouri.

A handwritten signature in dark ink, appearing to read "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" written in a larger, more prominent script than the last name "McCaskill".

Claire McCaskill  
State Auditor

March 15, 2000 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Karen Laves, CPA
Audit Manager:	Gregory A. Slinkard, CPA, CIA
In-Charge Auditor:	Kimberly Spraggs, CPA

## HISTORY AND ORGANIZATION



CITY OF LAKE ANNETTE, MISSOURI  
HISTORY AND ORGANIZATION

The city of Lake Annette is located in Cass County. It was incorporated as a village in 1982 and became a fourth-class city in 1994. The population of the city in 1990 was 157.

The city government consists of a mayor and a four-member board of aldermen. The four board members are elected for two-year terms. The mayor is elected for two years, presides over the board of aldermen, and votes only in case of a tie. The Mayor, Board of Aldermen, and other principal officials at December 31, 1999, were:

<u>Elected Officials</u>	<u>Term Expires</u>	<u>Amount of Bond</u>
Charles Whisenhunt, Mayor (1)	April 2000	\$5,000
Eric Atchley, Alderman (2)	April 2000	
Dennis Behrens, Alderman (3)	April 2000	
Scott Bentz, Alderman (4)	April 2000	
Joe Dalton, Alderman (5)	April 2000	
<u>Other Principal Officials</u>		
Sherry Pink, City Clerk (6)		\$5,000
Marsha Atchley, City Treasurer (7)		\$5,000
Tom Hansen, City Marshal (7)		
James Thompson, Jr., City Attorney		

The city's elected officials serve without compensation. With the exception of the City Attorney, the other principal officials currently serve without compensation. The City Attorney was paid \$1,207 during the year ended December 31, 1999. Former City Clerk Menges was paid \$2,373 during the year ended December 31, 1999. Subsequent to her resignation in October 1999, the City Clerk position became unpaid.

- (1) Appointed to replace Terry Murray who resigned in October 1999. Terry Murray served as Mayor from April 1999 to October 1999, and Dean Dwerlkotte served as Mayor from January 1999 to April 1999. In April 2000, Eric Atchley was elected to serve for one year with the term ending April 2001.
- (2) Appointed to replace Bob Rough who resigned in October 1999. In April 2000, Debbie Stark was elected to the board, but she declined to take office due to her appointment as City Clerk in February 2000. Angela Hansen was appointed to serve for one year with the term ending April 2001.
- (3) Appointed in October 1999 to replace Dean Dwerlkotte who resigned in September 1999. Dean Dwerlkotte served from April 1999 to September 1999, and Tom Hansen served from January 1999 to March 1999. In April 2000, Dennis Behrens was elected for a two year term.

- (4) Appointed to replace Joe Miller who resigned in November 1999. In April 2000, Scott Bentz was elected to serve for one year with the term ending April 2001.
- (5) Appointed in August 1999 to fill a vacant seat on the board. Ruth Gum held this position from April 1999 to August 1999, when the board determined the seat to be vacant. Mike Curtis served from January 1999 to April 1999. In April 2000, Joe Dalton was elected for a two year term.
- (6) Appointed to replace Karen Menges who resigned in October 1999. Sherry Pink subsequently resigned in January 2000, and in February 2000, Debbie Stark was appointed City Clerk.
- (7) Newly established positions, with the individuals appointed in October 1999.

Assessed valuation and tax rate information for 1999 were as follows:

#### ASSESSED VALUATION

Real estate	\$ 569,630
Personal property	<u>186,060</u>
Total	\$ <u>755,690</u>

#### TAX RATES PER \$100 ASSESSED VALUATION

General	\$ .20
Debt service	<u>1.56</u>
Total	\$ <u>1.76</u>

A summary of the financial activity for the city of Lake Annette for the year ended December 31, 1999, is presented below:

	General Fund	Road Fund	Sewer Project Fund	Sewer Debt Service Fund	Parks and Recreation Fund	Police Fund
RECEIPTS						
Property taxes	\$ 5,826 *	6,606	0	9,123	0	0
Motor fuel taxes	1,959	4,411	0	0	0	0
Interest	307	0	1,328	234	0	0
Traffic fines	990	0	0	0	0	32
Building permits	130	0	0	0	0	0
Miscellaneous	105	0	0	0	60	0
Total Receipts	9,317	11,017	1,328	9,357	60	32
DISBURSEMENTS						
Bond principal and interest	0	0	0	10,337	0	0
Salaries	2,551	0	0	0	0	0
Utilities	724	769	0	0	0	0
Contractor work	180	2,822	0	0	180	0
Equipment	0	2,240	0	0	0	0
Road materials	0	1,682	0	0	0	0
Legal fees	1,207	0	0	0	0	0
Insurance	1,734	0	0	0	0	0
Building repairs	188	188	0	0	0	0
Equipment repairs	384	0	0	0	0	0
Police equipment and supplies	328	0	0	0	0	0
Municipal League dues	275	0	0	0	0	0
Miscellaneous	721	407	0	0	162	0
Total Disbursements	8,291	8,107	0	10,337	342	0
Receipts Over (Under) Disbursements	1,026	2,909	1,328	(981)	(282)	32
Cash Balance, January 1, 1999	3,110	3,249	27,426	9,616	608	24
Cash Balance, December 31, 1999	\$ 4,136	6,158	28,754	8,635	325	56

\* \$2,861 was due from the General Fund to the Sewer Debt Service Fund at December 31, 1999. See MAR No. 3.

## MANAGEMENT ADVISORY REPORT

CITY OF LAKE ANNETTE, MISSOURI  
SUMMARY OF FINDINGS

1. Sewer Project (pages 11-12)

Although the city has expended almost \$59,000 toward the development of a sewer system, as of February 2000, little tangible progress has been made related to this project. The city needs to perform a comprehensive review of this project and determine whether it is feasible to proceed. If so, a firm decision needs to be made regarding the direction of the project and the necessary efforts and resources should be committed to ensure its successful completion.

2. Expenditures (pages 12-17)

The city does not have a formal bidding policy and instances were noted where bids were not solicited or bid documentation was not maintained. Expenditures were made to parties with whom certain city officials had business relationships. Compensation was paid to a former alderman which was not authorized by ordinance. Adequate documentation was not maintained to support various expenditures made from city funds. The city did not enter into written agreements with contractors or individuals in some instances. The minutes do not identify the disbursements approved by the board at its monthly meetings. IRS 1099-MISC forms were not prepared in all applicable instances.

3. Accounting Controls and Procedures (pages 17-19)

The duties of City Clerk and City Treasurer have not always been adequately segregated. Monthly bank reconciliations are not properly performed or documented. Since October 1999, city financial activity has not been properly tracked by fund and receipts have not been properly distributed between bank accounts. Some motor vehicle revenues have not been properly accounted for and may have been used for purposes other than street-related.

4. Budgets and Financial Reporting (pages 19-20)

In recent years the city has not adopted annual budgets and has not published semiannual financial statements as required by state law. In addition, annual financial reports have not been submitted to the State Auditor's office as required.

5. Board Minutes and Ordinances (pages 20-23)

The board minutes did not always adequately document matters discussed and actions taken by the Board of Aldermen. Board minutes were not always signed by both the City Clerk and the Mayor, and minutes were not prepared for all meetings. The city's ordinances are not complete and up-to-date, and the city has not adopted ordinances in some instances where required. The city does not have a formal policy regarding public access to city records.

6. Personnel and Payroll Matters (pages 23-25)

The board minutes do not document whether an alderman voted on the appointment of his wife as City Treasurer. Timesheets were not always sufficiently detailed or retained to support payroll, and all wages were not properly reported nor applicable payroll deductions withheld. Quarterly contribution and wage reports were not always accurate and submitted timely.

7. Street Maintenance Plan (page 25)

An annual maintenance plan for city streets has not been prepared.

CITY OF LAKE ANNETTE, MISSOURI  
MANAGEMENT ADVISORY REPORT

<b>1.</b>	<b>Sewer Project</b>
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In November 1990, the city contracted with an engineering firm to conduct a feasibility study, design, and perform other services related to the development of a municipal sewer system. To assist in financing the system, in April 1995, city voters approved the issuance of \$130,000 in general obligation bonds and \$300,000 in revenue bonds. Subsequently, the city issued \$85,000 in general obligation bonds in December 1995. Since that time, the city has levied a property tax to pay the bond principal and interest.

The net bond proceeds from the December 1995 issuance totaled \$80,942, and the city has spent \$58,954 from these monies. The balance of the remaining bond proceeds, plus interest income, totaled \$28,754 at December 31, 1999.

Although the city has spent a significant amount of the bond proceeds, as of February 2000, the city had made little tangible progress toward the development of a sewer system. Our review of board minutes and discussions with current and former city officials disclosed the following activities regarding the sewer project:

From December 1995 to March 1997, the city paid the engineering firm a total of \$57,102 for work performed on the feasibility study and design stages of the project. The engineer provided the city with drawings and cost estimates for various types of sewer systems. Current and former city officials indicate that the city was not satisfied with the work performed by the engineer and the estimated costs of the project, and this engineering firm was told to halt work on the project in April 1997.

Since that time, the city has received assistance from a different engineering firm in a further effort to develop this project. In January 1999, this engineering firm submitted a project proposal on behalf of the city to the Missouri Water and Wastewater Review Committee to obtain grant funding for the system. This January 1999 proposal listed four alternative systems and estimated the total cost of design, engineering, construction, and administration of the different systems would range from \$700,000 to \$1.2 million, depending on the type of system selected. In March 1999, the committee returned the project proposal to the city for additional information and suggested the city review additional alternative systems. However, as of March 2000, neither the city nor the engineering firm had resubmitted a revised proposal or any of the other requested information to the committee.

Because the board minutes were incomplete regarding discussions held and decisions made regarding the sewer system, it was difficult to determine why so little progress has been made on this project. However, it appears the high turnover of city officials in

recent years and a lack of administrative support/oversight has contributed to this situation. It should be noted that in January 1999, the city contracted with a grant consultant to assist it in pursuing grant funding and provide administrative support; however, the city decided not to renew this contract in 2000.

It appears the city needs to perform a comprehensive review of this project, the alternative systems presented by the engineers, and the estimated costs of these systems; and determine if it is feasible for the city to proceed with the project. If determined to be feasible, a firm decision should be made regarding the direction of this project and city officials should commit the necessary efforts and resources to ensure its successful completion. The city should obtain the necessary technical and administrative assistance from an engineer and/or consultant to assist it in this effort.

**WE RECOMMEND** the Board of Aldermen perform a comprehensive review of this project and the various alternatives and related costs; and determine whether it is feasible for the city to proceed with the project. If determined feasible, a firm decision should be made regarding the project and the necessary efforts and resources should be committed to the project. In addition, any necessary technical and administrative assistance should be obtained to help ensure its successful completion.

### **AUDITEE'S RESPONSE**

*The Board of Aldermen indicated the proposed sewer system is very much needed by the city and it is in the process of determining the feasibility of the project. The board anticipates that a decision will be made regarding the feasibility and future direction of the project within the next three months.*

<b>2. Expenditures</b>
------------------------

A. The city does not have a formal written bidding policy. While it appears the city has solicited bids in some instances, it appears bids are not generally solicited when goods and services are purchased. We noted the following areas of concern related to the city's bidding procedures:

- 1) During the two years ended December 31, 1998, the city received and spent a total of \$89,560 in capital improvement sales tax distributions from Cass County to rebuild a bridge and repair roads. The city did not publicly advertise or solicit written proposals for these projects. Current and former city officials indicated that for some items and services, price quotes were solicited from several companies and contractors and some items were available from only one vendor; however, documentation of these quotes and sole source procurement situations was not maintained. Rather than soliciting bids for construction of the bridge, the city hired its existing road maintenance contractor to perform the work. Payments to this contractor for bridge work totaled \$33,645.



Other expenditures made by the city in which bids were not solicited or documentation was not maintained included \$5,514 for road rock in 1999 and 1998, \$5,425 for police equipment in 1998, \$3,098 for insurance in 1998 and 1999, \$3,000 for a jeep in 1998, and \$1,900 for a tractor in 1999.

- 2) Each year, the city solicits bids for road maintenance, snow removal, and lawn maintenance. During the two years ended December 31, 1999, the city did not publicly advertise requests for these bids. Instead, former city officials indicated that notices were posted around the city and in nearby cities. Possibly because of the manner in which these services were provided, bids were received from only two vendors. In addition, lawn maintenance bid documentation could not be located.

Formal bidding procedures for major purchases provide a framework for economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders. Competitive bidding also helps ensure all parties are given an equal opportunity to participate in the city's business. Bids can be handled by telephone quotation, by written quotation, or by advertised sealed bid. Various approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids received and reasons noted why the bid was selected.

- B. During the three years ended December 31, 1999, expenditures were made to parties with whom certain city officials had business relationships. During this period, the city expended a total of \$54,950 to a local construction company for various services, including the road and bridge work and snow removal work noted in Part A. above. During this same period, former Alderman Rough worked on a contractual basis for this company. Although bids were solicited for some of these services and the former alderman indicated that he always abstained from voting on issues regarding this company, there was no documentation of this abstention in the board minutes.

Also, in 1997 the city hired an architectural firm to prepare a multi-year application to be submitted to the county for capital improvement sales tax funding. Although former City Clerk Menges worked at times for this firm on a contractual basis, there was no documentation to indicate the city solicited proposals for these services from any other companies or to reflect the board's discussion and approval of these services. Payments to this architectural firm totaled \$7,300 during the two years ended December 31, 1998. When the architectural firm was contacted about this matter, we were told that firm agreed to provide these services only after it was given the impression other firms would be contacted for proposals and the former City Clerk's business relationship with this firm would be disclosed to and approved by the board.

In situations where a city is considering doing business with an individual or company with whom an alderman or other city official also has a business relationship, the city should ensure other bids or proposals are obtained, the applicable official should abstain from voting on the transaction(s), and that abstention should be documented.

- C. During March 1999, former Alderman Rough was paid \$200 to repair the city's jeep. Although he indicated that a price quote for these services was obtained from a repair shop, documentation of this was not maintained.

The compensation of city officials must be set and is limited to the amount provided by ordinance. In Nodaway County v. Kidder, 129 SW 857 (Mo. 1939) the Missouri Supreme Court specifically stated, "The general rule is that the rendition of services by a public officer is deemed to be gratuitous, unless a compensation therefore is provided by statute."

- D. Documentation to support various disbursements made by the city could not be located. These expenditures included some police equipment, reimbursements to city officials and the road maintenance contractor, and payments to local retailers.

In addition, invoices totaling \$16,370 for expenditures from the 1998 capital improvement sales tax projects were not retained in city files. Although these expenditures were paid by either the county or the financial institution providing a construction loan, the city should retain documentation of such expenditures.

All disbursements should be supported by paid receipts or vendor-provided invoices to ensure the obligation was actually incurred and the disbursement represents an appropriate use of public funds.

- E. The city did not enter into written contracts for various contracted services received. For example, for the road and bridge projects funded with 1998 capital improvement sales tax distributions, the city did not enter into contracts with the construction company or the individual who performed the concrete work. In addition, while former city officials indicated there was a contract with the architect who prepared the application for funds, it could not be located in the city files.

Section 432.070, RSMo 1994, requires contracts of political subdivisions be in writing. The city should enter into written contracts for services rendered or obtained. A written contract, signed by the parties involved, should specify the services to be rendered and the manner and amount of compensation to be paid. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to provide protection to both parties.

- F. Although there is an occasional reference to a specific invoice being approved for payment, minutes usually only make a general reference that invoices are

approved for payment. Invoices are not signed or initialed by the aldermen, and a supplementary listing of all disbursements approved for payment by the board is not prepared to accompany the minutes. Monthly financial reports were prepared until October 1999, which included a detailed listing of all expenditures by fund; however, the expenditures represented the preceding month's activities.

In addition, there was no documentation in the board minutes or financial reports that the aldermen had reviewed and approved the expenditures totaling \$89,560 from the 1998 capital improvement sales tax funds.

To adequately document the board's review and approval of all disbursements, a complete and detailed listing of bills should be prepared, signed or initialed by the aldermen to denote their approval, and retained with the official minutes. In addition, supporting documentation should be reviewed by the board before payment is made to ensure all disbursements represent valid operating costs of the city.

- G. The city did not always issue Forms 1099-MISC to individuals or unincorporated businesses which provided services to the city. Expenditures for services totaling approximately \$34,200 were paid and not reported to the Internal Revenue Service on Forms 1099-MISC during 1998 and 1999 as required.

The Internal Revenue Code (IRC) requires payments totaling \$600 or more in a year to non-employees and businesses which are not corporations be reported on Forms 1099-MISC.

- H. During a four month period in 1998, the city reimbursed a former city official \$233 for toner purchased for a copy machine owned by that former official, and kept at the house of two other former city officials. According to former officials, a lot of copying was performed for the city during this period; however, there was no documentation explaining what copying was being performed or justifying the extent of these reimbursements. In the future, the city should ensure any similar reimbursements are adequately supported by adequate documentation.

**WE RECOMMEND** the Board of Aldermen:

- A.1. Establish formal bidding policies and procedures, including documentation requirements regarding the bids or quotes received and justification for the bid selected.
- 2. Ensure requests for bids for significant expenditures are publicly advertised and bid documentation is retained.
- B. Ensure bids are solicited for all purchases where the city is considering doing business with an individual or company with whom a city official has a business relationship. In addition, any board member should abstain from voting on the

applicable transaction(s) and that action should be adequately documented in the board minutes.

- C. Refrain from compensating a city official for any services performed for the city above that provided by ordinance.
- D. Ensure all disbursements are supported by paid receipts and/or vendor-provided invoices and other supporting documentation.
- E. Ensure formal written contracts are entered into for any services obtained by the city.
- F. Ensure the approval of all disbursements is adequately documented by including a listing of all approved disbursements in the board minutes. In addition, supporting documentation should be reviewed by the board before payment is approved.
- G. Ensure that IRS Forms 1099-MISC are filed as required.
- H. Ensure all reimbursements/expenses paid from city funds are adequately documented and necessary for the operation of the city.

#### **AUDITEE'S RESPONSE**

- A.1. *The Board of Aldermen concurs and indicated a formal bidding policy will be established within the next three months.*
- 2. *The Board of Aldermen concurs and indicated this recommendation has already been implemented.*
- B-H. *The Board of Aldermen concurs and indicated these recommendations will be implemented immediately.*
- B. *The architectural firm provided the following response:*

*The architectural firm principal believes its services were engaged after a competitive process which solicited responses from the existing engineering firm to the City, and others. The City Clerk discussed with him possible other types of bidders, placing a notice in daily or weekly newspapers, and left the impression that no one bidder had any advantage over any other. The principal asserts he made clear to the City Clerk that before he could proceed with applying for the work or being awarded any work, the elected City body would have to review and approve this arrangement. He was assured that this had been done before he began work. It was his understanding that when he received funds that these had been authorized by the governing body, and that the City Clerk did not have check writing ability on behalf of the City. Due to the architectural firm's work and the firm's situation, he and the City Clerk had discussed the absolute*

*necessity of there being not even an appearance of a conflict in any actions by the firm principal or those associated with him.*

<b>3. Accounting Controls and Procedures</b>
----------------------------------------------

- A. The duties of City Clerk and City Treasurer have not always been segregated as required. Prior to October 1999, the City Clerk also served as the City Treasurer. She collected all receipts, maintained the city's financial records, made bank deposits, co-signed checks, and served as secretary to the board. In October 1999, the Board of Aldermen appointed a separate individual as City Treasurer; however, as of January 2000, this person had not performed any duties and the City Clerk was essentially still performing the duties of both offices. In addition, there has been no independent review of the records by an individual who is not responsible for maintaining the records.

Attorney General's Opinion No. 24, 1955 to Dodds, concluded that in a fourth-class city the holding of the positions of City Clerk and City Treasurer by the same person at the same time would be incompatible. One person holding these offices does not allow the separation of duties necessary for a proper evaluation and review of financial transactions. These procedures jeopardize the system of independent checks and balances intended by state law.

Although it appears that recently the city has segregated duties between the City Clerk and the City Treasurer, a periodic independent review of the records is still not performed.

- B. Bank reconciliations are not properly performed or documented. Monthly bank reconciliations are necessary to ensure that all accounting records balance, that transactions have been properly recorded, and that any errors or discrepancies are detected on a timely basis. Complete documentation of the reconciliations should be retained to support conclusions, any corrections made, and to facilitate independent reviews.
- C. Six individual funds have been established to account for the financial transactions of the city. These funds are held in two checking accounts and several certificates of deposit. Our review of the city's handling of these funds disclosed the following concerns:
- 1) After former City Clerk Menges resigned in October 1999, city financial activity was no longer tracked by fund. In addition, since that time all receipts have been deposited into the main checking account, instead of separating receipts between the main account and the sewer account. As a result, debt service property tax receipts totaling \$2,861 were deposited into the main account instead of the sewer account as of December 31, 1999.

A ledger properly accounting for receipts and disbursements by fund should be maintained. In addition, the debt service property tax receipts improperly deposited into the main account should be transferred to the sewer account.

- 2) During the year ended December 31, 1999, the city received \$6,370 in motor vehicle-related revenues from the state. The city credits the gasoline tax revenues to the Road Fund; however, the motor vehicle sales tax and fee increase revenues have been credited to the General Fund. Therefore, \$1,959 in motor vehicle sales tax and fee increase revenues received during the year were credited to the city's General Fund.

Article IV, Section 30 of the Missouri Constitution, requires that motor vehicle-related revenues apportioned by the state of Missouri be expended for street-related purposes. To ensure compliance with the Missouri Constitution, the city should deposit all motor vehicle-related revenues into the Road Fund and ensure these monies are used only for street-related purposes as required.

We determined that motor vehicle-related revenues credited to the General Fund exceeded street-related expenses paid from that fund by \$1,176 during the year ended December 31, 1999. As a result of this situation, revenues legally restricted for street purposes may have been used for other municipal purposes. It also appears that at least some motor vehicle-related revenues were similarly mishandled in previous years.

**WE RECOMMEND** the Board of Aldermen:

- A. Continue to ensure the duties of the City Clerk and City Treasurer are segregated and that separate individuals are appointed to those positions. In addition, the city should ensure an independent review of the records is performed on a periodic basis.
- B. Ensure formal bank reconciliations are performed and documented on a monthly basis.
- C.1. Ensure a ledger of receipts and disbursements is maintained by fund. In addition, the debt service property tax revenues improperly deposited into the main account should be transferred to the sewer account.
2. Credit all motor vehicle-related revenues to the Road Fund and ensure they are spent only for street-related purposes as required. In addition, the city should determine the amount of restricted monies in the General Fund and transfer this amount to the Road Fund. If the balance of the General Fund is not sufficient to

make the transfer at this time, it should be made when adequate funds are available.

#### **AUDITEE'S RESPONSE**

- A. *The Board of Aldermen concurs and indicated it will implement an independent review of the accounting records on a quarterly basis.*
- B. *The Board of Aldermen concurs and indicated a formal bank reconciliation will be performed within the next three months and will be performed monthly thereafter.*
- C.1. *The Board of Aldermen concurs and indicated a ledger which accounts for financial activity by fund will be established within the next three months. In addition, the board indicated that within that same period an effort will be made to bring the records up-to-date and determine the balances of the various funds. The recommended transfer will be made as soon as balances are sufficient to do so.*
- 2. *The Board of Aldermen indicated that all road monies received in recent months have been credited to the Road Fund and this will continue. In addition, the board indicated that within the next three months an effort will be made to bring the records up-to-date and determine the balances of the various funds. The recommended transfer will be made as soon as balances are sufficient to do so.*

<b>4. Budgets and Financial Reporting</b>
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- A. The city did not adopt budgets for either of the years ending December 31, 2000 or 1999. According to former City Clerk Menges, she prepared a budget for the year ended December 31, 1999; however, it was not presented to and approved by the board. Section 67.010, RSMo 1994, requires the preparation of an annual budget which shall present a complete financial plan for the ensuing budget year.

A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific costs and revenue expectations for each area of the city operations and provide a means to effectively monitor actual costs and revenues. It will also assist in setting tax levies and informing the public about city operations and current finances.

- B. The city has not published semi-annual financial statements as required by state law. The last financial statement published by the city covered the period from January to June 1997.

Section 79.160, RSMo 1994, requires the Board of Aldermen to prepare and publish semi-annual financial statements. These financial statements are to include a statement of receipts and expenditures and indebtedness of the city for the preceding six month period. In addition, Section 79.165, RSMo 1994, states

the City Treasurer cannot legally disburse funds until the financial statement is published.

- C. The city has not filed an annual report of financial activity with the State Auditor's office as required. The last report submitted was for the year ended December 31, 1997. Section 105.145, RSMo 1994, requires the city to file a financial report with the State Auditor's office annually.

**WE RECOMMEND** the Board of Aldermen:

- A. Prepare annual budgets in accordance with state law, and make periodic comparisons between budgeted and actual revenues and expenditures.
- B. Ensure semi-annual financial statements are prepared and published in accordance with state law.
- C. File annual financial reports with the State Auditor's office as required by state law.

**AUDITEE'S RESPONSE**

- A. *The Board of Aldermen concurs and indicated it will implement this recommendation for the upcoming year.*
- B. *The Board of Aldermen concurs and indicated it will implement this recommendation for the first six months of calendar year 2000.*
- C. *The Board of Aldermen concurs and indicated it will implement this recommendation for calendar year 2000.*

<b>5. Board Minutes and Ordinances</b>
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- A. The board generally meets once a month. Our review of the board minutes noted the following areas of concern:
  - 1) The board minutes did not adequately document matters discussed and actions taken by the board. For example, there was little documentation to support discussions held and decisions made regarding the sewer system project discussed in MAR No. 1. In addition, there was no documentation of the decisions made regarding the spending of the capital improvement sales tax distributions received from Cass County in 1998 as discussed in MAR No. 2. In addition, during August 1997, the city obtained a loan to begin the bridge project in advance of receipt of this funding from the county; however, this decision was not documented in the board minutes. Other significant decisions/items which were not properly documented in



the minutes included the purchase of a tractor and a jeep in November 1999 and June 1998, respectively, and the resignations of two board members during 1999.

In addition, the minutes did not include some information required by state statute. There were numerous instances where the minutes indicated that a decision was made but did not indicate how the individual board members voted. In addition, minutes prepared for meetings held since October 1999 did not document the members present, motions made, or votes taken.

Section 610.020, RSMo Cumulative Supp. 1999, states that the minutes shall include the date, time, place, members present, members absent, and a record of votes taken. Minutes represent the official record of board actions and decisions and it is important that they are complete and accurate.

- 2) The board minutes are prepared by the City Clerk; however, the minutes are not always signed by both the City Clerk and the Mayor. In addition, although we were informed the prior month's minutes are usually approved by the board at the next board meeting, the minutes did not always document this approval.

The board minutes should be signed by the City Clerk as preparer and by the Mayor to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board's meetings. In addition, the minutes should document the board's approval of the prior month's minutes.

- 3) Minutes were not prepared for a meeting held in July 1999. To ensure compliance with open-meeting laws, minutes should be prepared for all meetings and be maintained and filed by the City Clerk. Section 610.020 RSMo Cumulative Supp. 1999, requires a journal or minutes shall be taken and retained of all open meetings of a public governmental body.

B. The city's ordinances are not complete and up-to-date. Our review noted the following:

- 1) It appears some of the city's ordinances are missing while others are old and outdated. In addition, some ordinances were not signed by the Mayor as required by state law.

Since ordinances represent legislation which has been passed by the Board of Aldermen to govern the city and its residents, it is important that the ordinances be maintained in a complete and up-to-date manner. Section 79.130, RSMo 1994, requires that no bill shall become an ordinance until

it shall have been signed by the Mayor or person exercising the duties of the Mayor's office.

- 2) Ordinances have not been adopted in some instances where required. For example, the city has not adopted ordinances to establish the compensation, duties, and terms of office of city officials or to establish the annual property tax rates as required by law.

Sections 79.270 and 79.290, RSMo 1994, require the compensation and duties of city officials and employees be set by ordinance; while Section 79.320, RSMo 1994, requires the duties and term of office of the City Clerk be fixed by ordinance. In addition, Section 94.210, RSMo 1994, requires the annual tax rates be established by ordinance.

- C. The city does not have a formal policy regarding public access to city records. A formal policy regarding access to and obtaining copies of city records would establish guidelines for the city to make the records available to the public. This policy should establish a person to contact, an address to mail such requests, and should establish a cost for providing copies of public records.

Section 610.023, RSMo Cumulative Supp. 1999, lists requirements for making city records available to the public. Section 619.026, RSMo Cumulative Supp. 1999, allows the city to charge fees for copying public records, but the fees shall not exceed the city's actual cost of document search and duplication.

**WE RECOMMEND** the Board of Aldermen:

- A.1. Ensure all significant discussions, actions taken, and information required by state law are included in the minutes.
2. Ensure all board minutes are approved by the board and signed by the Mayor and the City Clerk to attest to their completeness and accuracy. In addition, the board's approval of the prior month's minutes should be documented.
3. Ensure minutes are prepared for all meetings and properly retained.
- B. Ensure a complete and up-to-date set of ordinances is maintained. This would include passing new ordinances where appropriate and required by state law. In addition, the board should ensure all ordinances are signed by the Mayor as required by state law.
- C. Establish a formal written policy and procedures regarding public access to city records.

## **AUDITEE'S RESPONSE**

- A. *The Board of Aldermen concurs and indicated these recommendations have already been implemented.*
- B. *The Board of Aldermen concurs and indicated this recommendation will be implemented within six months.*
- C. *The Board of Aldermen concurs and indicated this recommendation will be implemented within three months.*

<b>6. Personnel and Payroll Matters</b>
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- A. On October 12, 1999, Alderman Atchley was appointed to the board on the same date the board appointed his wife to serve as City Treasurer. The board minutes do not document whether Alderman Atchley was involved in this decision or abstained from voting on the appointment of his wife.

The hiring or appointment of a relative by a public official is prohibited. Article VII, Section 6 of the Missouri Constitution states, "Any public officer or employee in this state who by virtue of his office or employment names or appoints to public office or employment any relative within the fourth degree, by consanguinity or affinity, shall thereby forfeit his office or employment."

In April 2000, Alderman Atchley was elected Mayor of the city. Because he has been elected to a new term of office subsequent to this appointment, this issue would not affect his current term of office as Mayor.

- B. Former City Clerk Menges was generally paid on a monthly basis. Our review of the related records and reports supporting this compensation disclosed the following concerns:

- 1) Timesheets were usually not sufficiently detailed. Most of the timesheets reviewed did not adequately identify the days worked or the time spent on specific tasks. In addition, some 1998 and 1999 timesheets were missing. Sufficiently detailed timesheets should be prepared and retained to support payments to employees.
- 2) The city did not properly report the wages, withhold payroll taxes, or pay the employer's share of social security on the former City Clerk's November 1998 wages of \$182.

The Internal Revenue Code requires employers to report all wages on W-2 forms and withhold federal income taxes. Similarly, Chapter 143 RSMo 1994, includes requirements for reporting wages and withholding state

income taxes. State and federal laws require employers to withhold payroll taxes and pay the employer's share of social security on the compensation paid to employees.

- 3) Quarterly contribution and wage reports were not always accurate and submitted timely to the Missouri Department of Labor and Industrial Relations, Division of Employment Security. The 1999 third quarter report was submitted late, causing the city to incur a \$200 penalty. In addition, \$517 in wages paid to the former City Clerk were not reported on the 1998 contribution and wage reports.

The board should ensure that contribution and wage reports are accurate and submitted timely to avoid incurring unnecessary penalties.

Since former City Clerk Menges resigned in October 1999, the individuals serving as City Clerk have served without compensation. Although no payroll costs are currently being incurred by the city, the recommendations presented below should be implemented if any compensation is paid in the future to any city employees or officials.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure any appointments of city officials comply with the restrictions of Article VII, Section 6 of the Missouri Constitution in regard to the appointment of public officials. If a relative of a city official is considered for appointment, that official should abstain from voting on the issue and an adequate record of the abstention should be maintained.
- B.1. Ensure timesheets are sufficiently detailed and retained to support any compensation paid to city employees.
2. Ensure all payroll taxes are properly withheld and remitted for any wages or salaries paid. In addition, the board should ensure that all compensation paid to employees is properly reported, and that an amendment is filed to report the 1998 wages which were not previously reported.
3. Ensure quarterly contribution and wage reports are accurate and submitted timely. In addition, the city should file an amendment to report the 1998 wages which were not previously reported.

**AUDITEE'S RESPONSE**

- A. *The Board of Aldermen concurs and indicated this recommendation will be implemented immediately.*

- B. *The Board of Aldermen concurs and indicated these recommendations will be implemented if necessary in the future. In addition, the board indicated the necessary amendments will be prepared and filed as recommended.*

<b>7. Street Maintenance Plan</b>
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An annual maintenance plan for city streets has not been prepared. A formal maintenance plan should be prepared in conjunction with the annual fiscal budget and include a description of the streets to be worked on, the type of work to be performed, an estimate of the quantity and cost of materials needed, the dates such work could begin, the amount of labor required to perform the work, and other relevant information. The plan should be included in the budget message and be approved by the board. In addition, a public hearing should be held to obtain input from the city residents.

A formal maintenance plan would serve as a useful management tool and provide greater input into the overall budgeting process. Such a plan provides a means to more effectively monitor and evaluate the progress made in the repair and maintenance of streets throughout the year.

**WE RECOMMEND** the Board of Aldermen prepare a formal maintenance plan for city streets at the beginning of the fiscal year and periodically update the plan throughout the year.

**AUDITEE'S RESPONSE**

*The Board of Aldermen concurs and indicated that this recommendation will be implemented for the upcoming year.*

This report is intended for the information of the city's management and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

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